

## Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 SAJ-01 L-03 H-03 PRS-01 PA-04 USIA-15 AGR-20

FEAE-00 DRC-01 EURE-00 /201 W  
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P R 021415Z AUG 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 6242

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

USMISSION NATO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

TREASURY DEPARTMENT WASHDC PRIORITY

UNCLAS ROME 10622

E.O. 11652 N/A

TAGS: EFIN, IT

SUBJ: STATUS OF ITALIAN TAX PACKAGE IN PARLIAMENT

REF: ROME 9407

1. /SUMMARY/. AT MEETING OF RESPONSIBLE MINISTERS AND COALITION  
PARTY REPRESENTATIVES ON JULY 29, AGREEMENT WAS REPORTEDLY REACHED  
ON CERTAIN CHANGES WHICH COULD BE MADE IN TAX DECREE LAWS OF  
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JULY 7 WHICH ARE NOW UNDERGOING PARLIAMENTARY RATIFICATION.

PRESICE REVENUE EFFECTS ARE DIFFICULT TO ESTIMATE BUT GOI CONTINUES TO INSIT ON 3,000 BILLION LIRE TARGET. EMBASSY BELIEVES THAT NECESSARY RATIFICATION WILL BE APPROVED, IF NOT BY TIME OF MID-AUGUST RECESS, AT LEAST BEFORE EARLY SEPTEMBER DEADLINE.  
/END SUMMARY/.

2. AT JULY 29 MEETING OF PRIME MINISTER, THREE FINANCIAL MINISTERS AND REPRESENTATIVES OF FOUR CENTERLEFT PARTIES, AGREEMENT WAS REACHED ON CERTAIN CHANGES WHICH COULD BE MADE IN GOI TAX PACKAGE WHICH HAD BEEN PUT INTO EFFECT ON JULY 7 BUT WHICH REQUIRES RATIFICATION WITHIN 60-DAY PERIOD (SEE REFTEL). NO FORMAL ANNOUNCEMENT HAS BEEN MADE OF PRECISE CONTENT OF CHANGES AGREED TO BUT SOME INFORMATION HAS BECOME AVAILABLE ON BASIS DISCUSSIONS IN PARLIAMENT AND PRESS LEAKS.

3. FOLLOWING ARE MAJOR CHANGES WHICH MAY EVENTUALLY BE APPROVED AND WHICH WOULD TEND TO INCREASE REVENUE: (1) DIRECT TAXES: (A) ONE-TIME 10 PERCENT SURCHARGE ON PERSONAL INCOME ABOVE 12 MILLION LIRE (THIS MEASURE IS STILL IN DOUBT); AND (B) INCREASE IN CORPORATE INCOME TAX RATE TO 35 PERCENT (RATHER THAN 30 PERCENT) FROM PRESENT 25 PERCENT. APPARENTLY HIGHER RATE WOULD APPLY FOR TWO-YEAR PERIOD JANUARY 1974 THROUGH DECEMBER 1975. (2) INDIRECT TAXES: (A) DEFERRED PAYMENT PERIOD ALLOWED TO PETROLEUM COMPANIES FOR REMITTING MANUFACTURING TAX ON PETROLEUM PRODUCTS WOULD BE REDUCED FROM 180 DAYS TO 90 DAYS AND INTEREST PAYABLE DURING THIS PERIOD WOULD BE INCREASED FROM 4-3/4 PERCENT TO PERHAPS 10 PERCENT OR MORE; (B) LIST OF LUXURY GOODS SUBJECT TO NEW 30 PERCENT IVA (VALUE-ADDED TAX) RATE WOULD BE EXPANDED, E.G., TO INCLUDE CERTAIN HARD LIQUORS, TABLE CRYSTAL, ETC.; AND (C) IVA RATE ON CONSTRUCTION MATERIALS WOULD BE INCREASED FROM 3 PERCENT TO 7 PERCENT (RATHER THAN TO 6 PERCENT).

4. PROPOSED CHANGES WHICH WOULD HAVE EFFECT OF REDUCING REVENUE ARE: (1) DIRECT TAXES: (A) LEVEL OF TAX EXEMPTION FOR WAGE AND SALARY INCOME WOULD BE INCREASED FOR TAXPAYERS HAVING AN INCOME OF 5 MILLION LIRE (RATHER THAN 4 MILLION LIRE) TO 1,200 THOUSAND LIRE FOR INDIVIDUALS, 1,500 THOUSAND LIRE FOR MARRIED COUPLES AND 1,750 THOUSAND LIRE FOR "TYPICAL" FAMILY OF HUSBAND, WIFE AND TWO CHILDREN; AND (B) ONLY 6,000 NEW TAX COLLECTION EMPLOYEES WOULD BE HIRED FOR MINISTRY OF FINANCE UNDER DECREE UNCLASSIFIED

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LAW, WITH ADDITIONAL 6,000 TO BE REQUESTED UNDER ORDINARY DRAFT LAW PROCEDURE. (2) INDIRECT TAXES: (A) TAX RATE FOR ONE-TIME TAX ON AUTOMOBILES, MOTORCYCLES, ETC. WOULD BE REDUCED BY ONE-HALF FOR VEHICLES WHICH ARE TEN YEARS OLD OR MORE AND DUE DATE FOR PAYMENT OF TAX WOULD BE CHANGED FROM AUGUST 6 TO SEPTEMBER 30, 1974; (B) EXEMPTION FROM IVA FOR PROFESSIONALS WITH INCOME OF LESS THAN 2 MILLION LIRE WOULD BE REINTRODUCED, WITH SUCH PROFESSIONALS, INSTEAD, TO PAY A FLAT ANNUAL TAX OF 50,000 LIRE; (C)

REDUCED IVA RATE OF 1 PERCENT ON LIMITED NUMBER OF FOOD ITEMS WHICH WAS TO EXPIRE AT END-1974 WILL BE EXTENDED TO END-1975; AND (D) ONE-TIME TAX ON REAL ESTATE WILL BE REINTRODUCED AS ORDINARY DRAFT LAW WHICH WILL THEN REQUIRE USUAL PARLIAMENTARY APPROVAL SO THAT TAX WILL PROBABLY BE PAYABLE IN 1975 RATHER THAN IN 1974.

5. ALL OF ABOVE POSSIBLE REVISIONS OF TAX PACKAGE ARE STILL SUBJECT TO CHANGE DURING COURSE OF PARLIAMENTARY RATIFICATION PROCESS SO THIS INFORMATION SHOULD BE USED WITH CAUTION. WE HAVE NO ESTIMATES AS TO NET REVENUE EFFECT OF ABOVE REVISIONS. OUR GUESS IS THAT, ON BALANCE, THEY WOULD NOT RESULT IN ANY SERIOUS NET LOSS IN EXPECTED REVENUE FROM TAX PACKAGE. GOI SPOKESMEN CONTINUE TO STRESS THAT 3,000 BILLION LIRE GOAL FOR INCREASE IN TAX AND PUBLIC UTILITY REVENUE HAS NOT CHANGED. GOVERNMENT REMAINS DETERMINED TO OBTAIN RATIFICATION OF TAX MEASURES IN SLIGHTLY REVISED FORM WITHIN REQUIRED 60-DAY PERIOD AND HOPES TO BE ABLE TO DO SO BEFORE MID-AUGUST RECESS, BUT THIS NOT YET CERTAIN.VOLPE

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